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Ask an Advisor: What is the time frame in which you analyze an investment?
By Rob Burgess
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Welcome back to "Ask an Advisor," the advice column where real financial professionals answer questions from real people. The topic can be anything in the world of finance, from retirement to taxes to wealth management — or even advice on advising.

Getting clients to focus on a longer time frame for their investments can be challenging in the age of micro attention spans and instant gratification. But when applied correctly, it's a proven technique for maximizing returns.

What this week's questioner wants to know is: How do you best communicate that idea to clients?

For help, he turned to his fellow advisors. Here's what he wrote:

Dear advisors,

What's the time frame in which you analyze an investment?

How do you get your clients to agree to a longer time frame?

Sincerely,

Craig Eissler
Wealth Advisor
Halbert Hargrove
Houston

In response, advisors suggested plenty of approaches, including aligning investments with client milestones, researching past performance, emphasizing the importance of time in the market, understanding client needs and risk tolerances, separating investments into buckets, communicating clearly and setting proper expectations.

Here are some of the responses we received to this week's question, edited lightly for clarity and length:

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Encourage clients to think long-term
Romy A. Pickron, founder and CEO of Asset Achievers in Dallas

As a financial planner working primarily with women, I encourage clients to think long-term by breaking their financial goals into clear time frames: approaching (two to four years), intermediate (four to eight years) and distant (over eight years). By aligning investments with these milestones and tapping into the power of compounding, we can navigate market ups and downs while building wealth tied to their life goals.

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Look for a track record
Tom Balcom, CFP and founder of 1650 Wealth Management in Lauderdale-by-the-Sea, Florida

Are you referring to mutual funds, ETFs or some other investment? For recently launched investments, we seek to analyze the long-term track record of the manager before incorporating the position into our mix. For recently launched funds without a track record, we are more skeptical and want to see at least a year of data before possibly incorporating it into the mix.

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Time in the market is critical
Noah Damsky, chartered financial analyst and founder of Marina Wealth Advisors in Los Angeles

Short-term investment performance is as predictable as a game of blackjack. The casino should win over time, but in the short term, you may win big.

In the markets, you can have a bad month — think COVID-19 in March 2020 — but the following years could be incredible. The timing is random. To be as successful as possible, time in the market is critical. To stay in the market for as long as that requires faith in the data of what's happened in the past.

Sometimes you just have to make the best decision with the available info, have some faith and recognize it's not always going to be perfect but likely to work out over the long term.

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Buying and selling by a predetermined metric
Nicholas Bunio, CFP at Retirement Wealth Advisors in Downingtown, Pennsylvania

I think it depends on the investment idea. Meaning that if a stock or fund is going to be a short-term play or satellite account — let's say one year or less — I still might look at the company's, or fund's, past five to 10 years of performance, income, management and news.

But holding it I will buy or sell by a predetermined metric.

As for a core investment/long-term investment — such as 10 years or more — I'm still going to do the same analysis but continually monitor the investment over that time. Also, the sell metric would have more leeway since it's a core fund held for a longer period.

That said, I don't have my clients "agree" for a length of time. I have discretion and a fiduciary responsibility over their investment accounts. So I'm matching their investments to their needs, wants and comfort levels, which can change over time.

Plus, most of my clients' core accounts will be invested for decades and will change due to their needs and circumstances. I'd say we don't have an "agreed upon" length. But more along the lines of agreed-upon needs and risk tolerance. We'll update based on our meetings as time goes on.

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Think in terms of “buckets”
Benjamin Simerly, founder of Lakehouse Family Wealth in Mentor, Ohio

We generally only look at investments we think can be held for 10 years or longer, even if they're in a short-term bucket because you just never know what the markets will bring. Beyond that, we always plan with different investment buckets.

We regularly walk clients through investment time frame planning and encourage them to think about investments in terms of "buckets." Helping clients feel confident in knowing their near-term needs are in a shorter-term bucket is the best way we have found to be able to go far longer-term in our investment outlook and potentially aggressively in other buckets. It can give clients the best of both worlds.

Separating the investments into different time frames or goal-based buckets can help clients make many new conversations possible in other planning areas as well, from estate planning to tax planning. We generally make sure every client has a six- to 18-month bucket of investments, just in case it's needed, even if they aren't planning on pulling income from it.

Some clients also worry about diversifying the investment managers that are managing their money, so the bucket strategies can achieve multiple goals at the same time. Usually, the question is phrased by clients as "We want to avoid the next Bernie Madoff." Longer-term outlooks combined with bucket strategies work great at solving a whole host of client concerns all in one systematized solution.

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Emphasize a balanced view
Joseph Boughan, a financial planner with Parkmount Financial Partners in Boston

Clients are generally okay and have much fewer questions about investment evaluation and time frame with things when markets are up. When markets are down, they can feel stressed about this, and the advisor is the closest thing to their investments and life savings, and the advisor bears the responsibility of communicating what is going on and supporting the investment process with guidance. It can be much harder to assert that we should be looking at it in a longer time frame when the markets are down. Especially if the advisor takes credit for things going well when markets are hot. I think the best thing advisors can do in good years is to explain to clients that this is just one season, and the results are a matter of the market activity which has a dynamic nature, and we will have more good years, but there is going to be volatility, too, and we need to be prepared to have a plan for how we will respond when things change.

When you emphasize a balanced view during good times, clients will be more prepared to have a balanced long-term view in down years, too.

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Properly set expectations
Reverend Dr. Nicole B. Simpson, founder of Harvest Wealth Financial in New York City

As a financial planner, the first thing I establish with clients is their overall objectives and how long they have to achieve those objectives. The investments are then identified based on the individual response. If a client has a desire to purchase stocks, without my recommendation, we will set parameters to which they will buy and sell the investments so that their risk is measurable. Otherwise, it is my responsibility to appropriately set the expectations for my clients that purchasing stocks, bonds and mutual funds are generally long-term investments. If the client has investment experience, we can shorten the time frame with an understanding the investment risk increases accordingly.